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Stabilising the Eurozone

A Europe-wide unemployment insurance scheme would make the EU more crisis-resistant

Read this article in German.

You could get the impression that Germany's right-of-centre Christian Democratic Union (CDU) and Christin Social Union (CSU) have dispensed with the idea of reforming the European Economic and Monetary Union (EMU) before they have even tried. There is, after all, no other plausible explanation for why they have rejected the plans by the German Finance Ministry for a fund to stabilise the member states' unemployment insurance schemes. The same old reflex reactions kicked in, with Social Democratic Finance Minister Olaf Scholz lazily criticised for supposedly wanting to transfer the hard-earned insurance contributions of German workers to fund Italians' sun-drenched *dolce far niente*.

The message to the German Social Democrats, Germany's French neighbours and to the EU institutions could not be clearer: the CDU/CSU will not countenance any comprehensive changes to the architecture of the Eurozone in the near future. The two sister parties dislike the topic, have no ambition beyond defending the status quo, and so are still hoping to simply sit it out until the end of the current Grand Coalition with the SPD. Although the coalition agreement specifies that particular efforts shall be undertaken to advance the European cause, the CDU/CSU seem to have made peace with the status quo.

The fact that the Chancellery and the Federal Ministry for Economic Affairs both openly communicated their lack of support for the Finance Ministry's plans is in itself astounding, all the more so since Chancellor Merkel had only recently, in June 2018, joined French President Emmanuel Macron in considering proposals for a fund to back up national unemployment insurance schemes. A Franco-German working party is tasked with producing detailed plans by December which will then be put before the European Council.

Stablising the EU economy

The euro crisis has made it abundantly clear that the EMU does not function in an optimal way. Quite to the contrary, in fact, as differences between the economic structures and cycles of the Eurozone states, as well as their often divergent ideas about and approaches to economic policy, leave the single currency continuously vulnerable to shocks. The issue with unexpected crises is that they seldom affect the Eurozone as a whole, but hit different Euro countries asymmetrically. There is no way of changing this. It's illusory to believe in economic convergence between the 19 states involved – and there does not need to be such a development for the Eurozone to function either.

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Blind faith in the market's ability to allocate risks and resources efficiently will not protect the single currency from future shocks. Neither will the integration between capital markets nor the increasing deregulation of employment create enough cross-border mobility to take care of imbalances. To put it bluntly: telling the unemployed youth in countries worst affected by the crisis to adapt to the demands of the market and accept worse conditions while working far from home will do nothing but alienate an entire generation from the European project.

What the Eurozone needs are automatic stabilisers of the same kind long applied in the member states — with no small degree of success. To take Germany as an example: when the labour market is expanding due to economic growth, the Federal Employment Agency runs a surplus, using it to pay benefits when unemployment rises. This way, it smoothes out downturns by keeping money in the economy. This kind of cyclical stabilising mechanism could easily be established for the Eurozone, either with its own proprietary budget or as a joint insurance scheme. The effect would be low-level foundations for a form of European financial federalism, yet one which, in view of its purely cyclical influence, should not be confused with a broader structural convergence between the Eurozone economies. The latter would, after all, require a tangible expansion in the structural and cohesion funds to harmonise production and living standards in the long term. For a monetary union, however, a convergence in specific economic indicators and instruments to stabilise the economy suffices.

A smallest step proposal

The US, for instance, has created a system of automatic stabilising mechanisms which function through tax, unemployment insurance, and social and health services: states experiencing an economic downturn make smaller payments into the joint budget while receiving higher pay-outs in order to stimulate fiscal activity. During periods of expansion, the scales are reversed and the state becomes a net contributor – i.e. the framework is anti-cyclical. Europe is completely missing a joint instrument of this kind.

Despite common perceptions, a European unemployment insurance scheme would in no way replace the existing national systems, but rather supplement them with a transnational component only applicable following a serious economic shock. By stabilising the economy in affected states, it would not only help those countries, but prevent the crisis from spreading into other Euro economies.

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The proposal from within the Finance Ministry doesn't even intend to go this far. It merely states that the European stabilisation fund would come into play in particularly serious recessions which take individual member states' unemployment insurance schemes to their financial limits. This would alleviate short-term joblessness caused by economic downturns, not the structural issues of the national labour market (e.g. long-term unemployment), which would remain within the remit of the state.

When compared to the US model, however, the key difference is that there are no financial transfers. Instead, the stabilisation fund paid into by the member states would provide credit to the countries affected – credits which would have to be repaid once the economic crisis had been resolved. What is more, obligatory minimum requirements and sanctions in case of non-fulfilment have been written into the proposal in order to exclude the possibility of offering other Euro countries a free ride — before there have even been early-stage consultations with other EU states regarding their willingness to accept the proposals and the potential institutional modalities.

As such, the proposed stabilising fund is nothing like a genuine European unemployment insurance scheme. Without fiscal transfers between states, it simply risks duplicating the structure and function of the European Stability Mechanism (ESM), deepening the problematic gulf

which has opened up between creditor and debtor states. The plans would be compatible with the investment stabilising function recently proposed by the European Commission, a €30bn fund to support investment during recessions. Yet whether Macron would agree to them is more than questionable given that his own plans for a Eurozone budget go much further. So there really is no need to get hot under the collar about Scholz' proposal, as it represents nothing more than the smallest possible step towards a crisis-resistant EMU which is better able to deal with asymmetric shocks — and the absolute minimum commitment of the Grand Coalition to do more than simply pay lip service to the importance of European stability.



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